DIRECT TESTIMONY ON REHEARING OF DR. STANFORD L. LEVIN ON BEHALF OF AMERITECH ILLINOIS

EXHIBIT 11.0

DOCKET NO. 00-0393

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stanford L. Levin. My business address is Department of Economics, Southern Illinois University Edwardsville, Edwardsville, Illinois.

Q. WHAT IS YOUR OCCUPATION AND CURRENT POSITION?

A. I am an economist and Professor of Economics at Southern Illinois University Edwardsville, where I have been teaching since 1972. I was Chairman of the Department of Economics from 1986-1994. I am also president of The Resource Group, Inc., an economic consulting firm in St. Louis, Missouri.

Q. PLEASE STATE YOUR EDUCATIONAL QUALIFICATIONS AND PROFESSIONAL EXPERIENCE RELEVANT TO PUBLIC UTILITY REGULATION AND THE ISSUES IN THIS PROCEEDING.

A. I received a B. A. in economics from Grinnell College and a M.A. and Ph. D. in economics from the University of Michigan. My specialization in graduate school was the field of industrial organization, which includes the study of regulated industries in the economy. My teaching assignments include graduate and undergraduate courses in industrial organization, public utility regulation, and microeconomic theory. I regularly attend seminars on industrial organization and regulation and have previously submitted testimony before state and federal regulatory commissions in the United States and Canada.

In the summer of 1970 I worked as an Industry Economist in the Office of Economics at the Federal Power Commission. My duties involved work on natural gas and electricity cases before that Commission as well as an analysis of issues relevant to regulation.

From December, 1977, through August, 1978, I was on sabbatical leave from Southern Illinois University at Edwardsville. During this time I worked at Data Resources, Inc., in Washington, D. C., managing a project for the Department of Natural Resources of the State of Maryland. From 1979 to 1983, I was a consulting economist at the Chicago Regional Office of the Federal Trade Commission, dealing primarily with antitrust cases.

In November, 1984, I was appointed Commissioner of the Illinois Commerce Commission, the public utility regulatory body in Illinois, by Governor James R. Thompson. I served on the Commission until March, 1986, at which time I returned to Southern Illinois University at Edwardsville. While on the Illinois Commerce Commission, I was Chairman of the Commission's Telecommunications Policy Committee and a member of the Commission's Electric Policy Committee.

These and other professional activities, papers, and publications are detailed in my vita, attached to my testimony as Schedule SLL-1.

Q. FOR WHOM ARE YOU TESTIFYING IN THIS CASE?

A. I am testifying for Ameritech Illinois.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked by Ameritech Illinois to analyze the economic and policy issues associated with the portion of the Commission's Order in this docket mandating the unbundling of Project Pronto UNEs and requiring Ameritech Illinois to permit CLECs to collocate line cards in DSL-enabled Project Pronto Next Generation Digital Loop Carriers ("NGDLCs").

Q. WHAT IS PROJECT PRONTO?

A. Project Pronto is Ameritech Illinois' planned new network overlay architecture designed to increase the availability of DSL (digital subscriber line) services to Illinois consumers. DSL service provides high-speed Internet or other data access to telephone company customers over traditional copper loops or subloops. The availability of DSL service is limited, however, because the technology used to provide DSL service requires that copper loops or subloops not exceed a specified length in order for high-speed access service to be available. Because of the configuration of the Project Pronto architecture and its use of a fiber feeder system, it has the capacity to bring DSL service to customers who would not otherwise have DSL service readily available because of the length of their copper loops.

Q. WHAT ARE PROJECT PRONTO UNES THAT THE ILLINOIS COMMERCE COMMISSION HAS REQUIRED AMERITECH ILLINOIS TO UNBUNDLE?

A. In its March 14, 2001, Order in this docket,[1] the Illinois Commerce Commission mandated that Ameritech Illinois unbundle for competitors the following elements, referred to as Project Pronto UNEs (unbundled network elements):

a. Lit Fiber Subloops between the RT and the OCD in the CO consisting of one or more PVPs ("permanent virtual circuits") at the option of the CLEC;

b. Copper Subloops consisting of the following segments;

   i. the copper subloop from the RT to the NID at the customer premises;
   ii. the copper subloop from the RT to the SAI ("serving area interface");
   iii. the copper subloop from the SAI to the NID at the customer premises.

c. ADLU line cards owned by the CLEC and collocated in the NGDLC equipment in the RT;

[1] Illinois Bell Telephone Company, "Proposed Implementation of High Frequency Portion of Local Loop (HFPL) / Line Sharing Service (Tariffs filed April 21, 2000)," Illinois Commerce Commission Docket No. 00-0292, March 14, 2001.

d. ADLU line cards owned by the ILEC in the NGDLC equipment in the RT;

e. A port on the OCD in the CO; and

f. Any combination thereof, including a line-shared xDSL loop form the OCD port to the NID.[2]

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony makes the following points.

- In terms of economic welfare and sound economic policy, it is important to the people of Illinois that regulation not inhibit the deployment of high speed Internet and data access services.
- The relevant economic market is at least the high-speed Internet and data access market, and it may also include low-speed Internet and data access. There is no such thing as a DSL market.
- Project Pronto UNEs are not essential facilities, since competitive alternatives are available, so they should not be mandatorily unbundled.
- The mandatory unbundling of non-essential facilities, including Project Pronto UNEs, is anti-facilities-based competition, anti-competitive, and anti-consumer.
- If Ameritech Illinois were to proceed with its deployment of Project Pronto DSL facilities, the costs associated with the unbundling of Project Pronto UNEs would have to be paid by someone, and the result is likely to be a slow-down or halt in the deployment of DSL service. This would harm primarily small business and residential customers, particularly those located in areas with fewer competitive alternatives for high-speed Internet and data access.

[2] *Ibid.*, page 25.

II. THE IMPORTANCE OF HIGH-SPEED ACCESS

Q. WHAT IS THE PURPOSE OF PROJECT PRONTO?

A. Project Pronto is designed to enhance the availability of DSL service for high-speed Internet or data access over Ameritech Illinois' network to small business and residential customers whose demand is not sufficient to justify purchasing other offerings designed for the larger business market, such as T-1 service from Ameritech Illinois or from other business data services providers. This high speed DSL service is in contrast to low-speed dial-up modem service, which provides data transmission speeds of up to 56K.

Q. WHY IS THE AVAILABILITY OF HIGH-SPEED ACCESS SERVICE IMPORTANT?

A. While today most Internet users still subscribe to low-speed access, a growing fraction are subscribing to high-speed access service. As Internet users make greater demands, and as web pages become more complex, users become dissatisfied with low-speed dial-up access and want the convenience of always-on high-speed access.

Recently, both Illinois Governor George Ryan and Chicago Mayor Richard Daley have recognized the importance of telecommunications infrastructure, including high-speed Internet access, to the future of the state's and the city's economic development. Governor Ryan's VentureTECH initiative, a five-year $1.9 billion strategy for state investment, includes information technology. Governor Ryan's VentureTECH proposal is attached as Schedule SLL-2. The Illinois Department of Commerce and Community Affairs is relying on Governor Ryan's efforts in order to promote Illinois as a place of business that supports and encourages the development and integration of communications technologies. See Schedule SLL-3. Mayor Daley's "Strategy for 'New Economy' Growth in Chicagoland" recognizes the importance of communications infrastructure, including digital high-speed access service. See Schedule SLL-4.

For both business and residential consumers, high-speed Internet and data access services are becoming more important for e-commerce, information services, education, health

care, and a number of other uses. Furthermore, experience suggests that within a few years high-speed Internet and data access services may be useful, if not mandatory, for users in ways that we cannot imagine or predict today.

The provision of DSL service over Ameritech Illinois' network is one of the ways that high-speed Internet and data access offerings should be brought to customers. Project Pronto could play an important role in the upgrading of Illinois' telecommunications and Internet access infrastructure.

Q. ARE THERE ANY REASONS WHY AMERITECH ILLINOIS SHOULD NOT HAVE TO MAKE ITS PROJECT PRONTO UNES AVAILABLE TO CLECS?

A. Yes, there are at least two major reasons why Ameritech Illinois should not have to make its Project Pronto UNEs available to CLECs. The first reason, and the one that I will address most extensively, is a policy issue. The second issue concerns economic and technical feasibility, and I will address this to some extent as well.

III. MARKET DEFINITION AND UNBUNDLING POLICY

Q. WHAT IS THE POLICY ISSUE, AS YOU SEE IT, THAT RELATES TO THE COMMISSION'S MANDATORY UNBUNDLING OF PROJECT PRONTO UNES?

A. The policy question, as I see it, concerns competition and the benefit to consumers.

Q. PLEASE EXPLAIN THIS ISSUE IN MORE DETAIL.

A. We must remember that the purpose of competition, and the reason that we have implemented policies to introduce competition into telecommunications, is to benefit consumers. Economics demonstrates that competition can be expected to benefit consumers with lower prices, improved service, more innovation, and more customer responsiveness. Telecommunications, and Internet and data access services, should be no exception to this general rule that competition should bring advantages to consumers. In

evaluating alternative regulatory policies, we should always do so in terms of what they will mean for consumers.

Q. SO WHY, THEN, ISN'T IT GOOD POLICY TO REQUIRE THE MANDATORY UNBUNDLING OF PROJECT PRONTO UNES?

A. In order to understand why the mandatory unbundling of Protect Pronto UNEs is poor policy, some careful analysis of the high-speed Internet and data access market is required, as well as an understanding of when mandatory unbundling of network elements will actually benefit competition. It is my opinion that the mandatory unbundling of Project Pronto UNEs is anti-competitive and anti-consumer; the effect of this unbundling, if it were left in place and if the Project Pronto DSL network were deployed, would be higher prices and fewer choices for consumers.

A consideration of the relevant economic market is fundamental to understanding the issues surrounding the mandatory unbundling of Project Pronto UNEs and to understanding why the mandatory unbundling of Project Pronto UNEs is anti-competitive and anti-consumer.

Q. WHAT IS THE RELEVANT ECONOMIC MARKET AND WHY IS THE MARKET DEFINITION IMPORTANT?

A. In my opinion, the relevant economic market is at least as broad as high-speed Internet and data access, and it is likely to include both high-speed and low speed Internet and data access, comprising an Internet and data access market. The market definition is important because it helps to determine whether it is necessary and desirable to require the unbundling of underlying portions of a high-speed Internet and data access network, such as the Project Pronto DSL network.

Q. HOW DOES ONE GO ABOUT DETERMINING A RELEVANT ECONOMIC MARKET?

A. A relevant economic market includes those products or services that are reasonably good substitutes for each other. What this means is that the prices of the services are

interdependent and cannot move freely of each other. While each supplier of a good or service in the market might have a small amount of pricing discretion, the substitutability of the service in question for certain others constrains to a substantial extent the pricing flexibility of any one of the suppliers.

Q. WHY DO YOU CONCLUDE THAT THE RELEVANT MARKET IN THIS CASE IS AT LEAST A HIGH-SPEED INTERNET AND DATA ACCESS MARKET?

A. In the case at hand, it is quite clear that DSL services, including those that would be available over Ameritech Illinois' Project Pronto network, are a close substitute for the high-speed cable modem access offered by many cable television companies and for high-speed satellite and high-speed fixed wireless services, including Sprint Broadband Direct offered in Chicago, for example. Both the suppliers and consumers view these services as substitutes, even though they may not be identical services. Advertising and corporate promotional material often compare one service with another, at least indirectly, and the services are often treated as substitutes and reviewed as such in the technical press. Certainly, the prices that providers of these competing services each charge are interdependent. This is the case even though some customers or potential customers may have a choice of only one or two service providers, as opposed to the maximum potential number of service providers.

Nationally, The Yankee Group reports that at the end of December 2000, there were 3.7 million households with cable modems, 1.7 million with DSL, and 75,000 with satellite broadband, the last of which The Yankee Group characterizes as poised to have a significant impact on the residential broadband market in the next five years.[3] For the purposes of this analysis, it is also worthwhile noting that cable modems dominate high-speed access services today. DSL service providers, as a result, do not and can not have any market power in the high-speed Internet and data access market, let alone in an Internet and data access market including both high-speed and low-speed access. If The

[3] Michael Goodman, "Residential Broadband: Cable Modems and DSL Reach Critical Mass," *The Yankee Group Report*, Vol. 5, No. 3, March 2001.

Yankee Group's prediction of rapid growth in high-speed satellite service is correct, then DSL service providers will not be able to acquire market power in the future, even if they gain market share ground on cable modem providers.

It is worth noting that high-speed Internet and data access service providers usually do not set prices individually for each customer, or differently for each geographic area, but rather have generally available prices that are broadly regional or national in scope. This is in contrast to local exchange telecommunications prices and cable television service prices, which often vary by relatively small geographic area. As a result, it is not necessary for there to be complete overlap of the geographic areas in which Internet and data access service providers all offer service in order for the market to provide pricing discipline for all of the service providers in all areas.[4]

Q. WHY MIGHT THE RELEVANT MARKET BE EVEN BROADER THAN A HIGH-SPEED INTERNET AND DATA ACCESS MARKET?

A. High-speed Internet and data access service providers may not constitute all of the service providers in an economic market. It is only reasonable to ask if the availability and pricing of low-speed Internet and data access affects the pricing of high-speed access. Low-speed access is fairly ubiquitous. There are few potential customers who cannot obtain low-speed Internet and data access. As a result, high-speed Internet and data access service providers must take into consideration the price that customers pay for low-speed Internet and data access. In my experience, this is an important consideration in the pricing of high-speed Internet and data access. As a result, while high-speed Internet and data access can cost twice as much or more than low-speed Internet and data access, I believe that the prices may be sufficiently interdependent so that high-speed and low-speed Internet and data access are in the same market.

[4] Two recent articles by Jerry A. Hausman, J. Gregory Sidak, and Hal J. Singer support this market definition. *See* "Residential Demand for Broadband Telecommunications and Consumer Access to Unaffiliated Internet Content Providers," *Yale Journal on Regulation*, 2001; "Cable Modems and DSL: Broadband Internet Access for Residential Customers," *American Economic Review Papers and Proceedings*, May, 2001, forthcoming. In both of these articles, the authors argue strongly for a broadband Internet access market including DSL and cable modems, although they believe that narrowband access consisting of dial-up service is a separate market.

Q. IS THERE ANY OTHER EVIDENCE TO CONSIDER IN DETERMINING THE ECONOMIC SCOPE OF THE MARKET?

A. Yes. For example, the General Accounting Office published a study in February, 2001, "Characteristics and Choices of Internet Users," Report to the Ranking Minority Member, Subcommittee on Telecommunications, Committee on Energy and Commerce, House of Representatives. This survey, in contrast to the Hausman, *et. al* studies, is consistent with the conclusion that there is an extremely broad Internet and data access market and not with merely a separate high-speed or broadband Internet and data access market.

Q. IS THERE, THEN, A SEPARATE DSL MARKET?

A. No. It is clear from observing the market and from the available economic analysis that DSL service does not constitute a separate market. DSL service competes with other high-speed Internet and data access alternatives, including cable modems and satellite services. It may also compete, a least for some customers, with T-1 and other forms of high-speed Internet and data access service purchased by business customers from telecommunications carriers. In addition, I believe that DSL may compete with low-speed dial-up service as well.

Q. WHAT IS THE IMPORTANCE OF YOUR CONCLUSION THAT DSL DOES NOT CONSTITUTE A SEPARATE MARKET?

A. This conclusion is important for the policy evaluation of the Commission's proposed mandatory unbundling of Project Pronto UNEs. Policies that are based, implicitly or explicitly, on the separate existence of a nonexistent DSL market will almost certainly not be good ones, in that they will not be in the interest of consumers.

As an economic matter, unbundling is required only for essential facilities, since without the unbundling of essential facilities, there could not be competition. An essential facility is a facility or function or service that is essential to provide service and that cannot be economically or technically duplicated by a competitor. The existence of an essential

facility means that there can never be competition for that facility, but that it would be possible to have competition for the remaining components of the service if the essential facility were made available to competitors.

Consider as a hypothetical example that a local copper telephone loop in a high-cost area is an essential facility (although I do not necessarily agree that it is). This means that no other service provider other than the incumbent would find it possible to construct a competing loop in this high-cost area. As a result, there would be no competition for local telephone service in this area. If, however, the local copper loop were unbundled and made available to competitors, then there would be competition for local telephone service, although the competition would be limited to those elements of the local telephone service other than the local loop that could be provided using competitive facilities.

Of course, the more components of the incumbents' service that are used by competitors, the fewer competing facilities are built or used and the less facilities-based competition there is. And it is facilities-based competition that is the proper economic objective, since that is what benefits consumers most. It is only with facilities-based competition that customers get true choice, rather than the choice of buying the same underlying service from a selection of service providers.

Q. ARE ANY OF THE COMPONENT PARTS (NETWORK ELEMENTS) OF THE PROJECT PRONTO DSL NETWORK ESSENTIAL FACILITIES?

A. No. As an economic matter they cannot be, because there are alternatives in the market to using an ILEC's network for high-speed Internet and data access. If a service is competitively supplied, it or some components of it cannot, by definition, be essential facilities. It is in this context, however, that we can see why it is so important to define the market correctly.

Any local telecommunications service provider with a competitive facilities-based network can provide DSL service. In addition, as I described above, there are other technologies, such as cable modem, fixed wireless, and satellite services, available for

customers to obtain high-speed Internet and data access services (not to mention low-speed access service). Accordingly, DSL components, including Project Pronto UNEs, can be economically and technically provided by competitors to provide a DSL-type service, or other technologies can be used to provide competitive Internet and data access services. As a result, Project Pronto UNEs fail the essential facilities test.

Q. SHOULD DSL UNES, INCLUDING PROJECT PRONTO UNES, BE UNBUNDLED?

A. No. Mandatorily unbundling non-essential facilities is not in the interest of consumers, as it will ultimately limit the extent of facilities-based competition from which those consumers can benefit. Nothing, of course, should stand in the way of a company that voluntarily wishes to make certain facilities or services available to competitors. It is the mandatory nature of the unbundling that is detrimental to consumers.

We should also remember that just because a CLEC says that it wants to purchase Project Pronto UNEs, that in itself is not a justification for making such UNEs available on a mandatory basis. The goal of regulation cannot be to make any business plan a reality; indeed, when it involves the mandatory unbundling of non-essential facilities, such a policy should be avoided. When non-essential facilities are involved, competitors and potential competitors should acquire their own facilities, either by constructing them or by purchasing or leasing them from someone voluntarily.

Q. WHAT HAPPENS IF NON-ESSENTIAL FACILITIES ARE MANDATORILY UNBUNDLED?

A. As an economic matter, the act of forcing the unbundling of non-essential facilities is, itself, significant, as is the price at which these unbundled non-essential facilities are made available to competitors. When non-essential facilities are mandated to be unbundled, competitors may find it preferable to use these UNEs to provide service rather than to construct their own facilities. This limits the extent of facilities-based competition from which customers might benefit.

While the illusion of competition may be created by different service providers nominally providing service, true, facilities-based competition is reduced when UNEs are used. This limits the true competitive choices and the actual and potential benefits for consumers. At the same time, we must remember that facilities-based competition will take longer to appear than will resale competition or competition using UNEs, but it is worth waiting for. Some regulatory patience is in order, as facilities-based competition will maximize the benefits to consumers.

Similarly, to the extent that UNEs are made available at prices that are less than fully compensatory, as is arguably the case with TELRIC and other regulatory pricing schemes, this further limits facilities-based competition. If a competitor can purchase some of the facilities he needs from an incumbent at a price that is below the cost of competitive supply, then companies that want to provide facilities-based competition will likely find it difficult to compete with a service provider making use of these below-cost UNEs. The result could be one underlying network provider, with all service providers using the same network and competing on, say, marketing or some other ancillary services. This policy of mandating the unbundling of non-essential facilities ends up precluding customers from benefiting from facilities-based competition because of the policy's anti-competitive incentives. Such a policy encourages the continuation of a single network provider, or at least limits facilities-based competitive alternatives, to the detriment of consumers.

From an economic policy perspective, it is important to remember that the purpose of unbundling is to permit competition when such unbundling is the only way to do so, due to the existence of essential facilities, so that consumers will benefit. The purpose of unbundling is not to allow competitors to provide service with less investment, nor is it to ratify any particular business plan that a competitor might have. Because mandated unbundling that is not economically required discourages or eliminates facilities-based competition, mandatory unbundling of non-essential facilities is anti-competitive and anti-consumer.

IV. ECONOMIC CONSIDERATIONS IN THE UNBUNDLING OF PROJECT PRONTO UNES

Q. ASIDE FROM THE ECONOMIC POLICY ISSUES SURROUNDING THE MANDATORY UNBUNDLING OF PROJECT PRONTO UNES, ARE THERE OTHER RELATED ECONOMIC ISSUES?

A. Yes. I would like to address the costs associated with the mandatory unbundling of Project Pronto UNEs. There are two considerations in this regard.

First, there is a cost to unbundle UNEs, including the Project Pronto UNEs. In the case of the Project Pronto UNEs, I personally have not attempted to quantify the cost,[5] but I do believe that the cost would be substantial. Someone must pay for this cost. Ideally, it would and should be the purchasers of the Project Pronto UNEs, but that may not always be the case. Ameritech Illinois would incur the cost of unbundling the Project Pronto UNEs, whether or not anyone purchases them. Furthermore, the prices that are charged for the Project Pronto UNEs, along with the quantities sold, would be unlikely to cover the full costs of unbundling them. But these unbundling costs would not go away; if they are not paid by the purchasers of the Project Pronto UNEs, then they would have to be paid by Ameritech Illinois or its other customers.

Q. IS THERE ANY OFFSETTING BENEFIT TO THESE COSTS?

A. It is certainly worth asking what the benefit is from unbundling these Project Pronto UNEs and whether the benefit is commensurate with the cost. In this case, however, there does not seem to be any benefit *for consumers*. In fact, mandatory unbundling of Project Pronto UNEs would be detrimental to consumers because it likely would delay, reduce, or prevent the emergence of facilities-based competition. The market includes at least high-speed Internet and data access and may include low-speed Internet and data access as well. Consumers benefit from having as many facilities-based alternatives available to them as possible; the more, the better, as long as they are not a result of

[5] Debra Aron and James Keown, in their testimony, offer additional evidence on the cost of unbundling the Project Pronto UNEs.

artificial incentives. Mandatory unbundling of Project Pronto UNEs would only benefit consumers if they were essential facilities. Because the Project Pronto UNEs are not essential facilities, as there are competitive facilities available, consumers are harmed rather than helped by such a policy of mandatory unbundling. In this case even if Ameritech Illinois were to go forward with its deployment of those Project Pronto facilities, making the Project Pronto UNEs available on a mandatorily unbundled basis would to a greater or lesser extent, depending on the UNE pricing, preclude additional facilities-based DSL service providers. Many, if not all, actual and potential DSL service providers would choose to use Project Pronto UNEs rather than invest in their own facilities, and other service providers who might want to provide facilities-based service using competing technologies would be prevented from doing so, if the UNE prices were artificially low. Conversely, if, because of the additional costs created by an unbundling requirement, the UNE prices were too high relative to the market, then the otherwise economic provision of DSL service over a new ILEC network, such as the Project Pronto network, would become uneconomic.

Mandated unbundling of non-essential facilities such as the Project Pronto UNEs will distort market outcomes as consumers select between different types of high-speed Internet and data access and between low-speed and high-speed access. In addition, mandated unbundling of non-essential facilities generates unnecessary costs that must be paid by providers or their customers.

Q. WHAT IS THE SECOND CONSIDERATION RELATED TO THE COST OF UNBUNDLING PROJECT PRONTO UNES?

A. The evidence provided by Ameritech Illinois[6] indicates that there are substantial practical and technical limitations to unbundling the so-called Project Pronto UNEs. Ultimately, this is another aspect of the cost issue. While there may be some UNEs that simply cannot be provided on an unbundled basis, others probably can be if enough money is spent. There is probably a cost at which most things will work, one way or another.

[6] See, e.g., Affidavit Appendix to Ameritech Illinois' Verified Application for Rehearing.

But it is these added, real-world costs that prove the economic point. Even if the Project Pronto UNEs can, in fact, be provided on a unbundled basis as a technical matter, the result would be to make the network less efficient. Such decreased efficiency has a cost. In addition to the cost of simply providing UNEs, then, we must also recognize the added cost of DSL services provided over a less efficient network. While I have not attempted to quantify these costs, once again it is apparent that they can be significant, depending on the degree of unbundling that might be required. These costs would have to be borne by someone. If they are not borne by the DSL service providers, then they would have to be borne by Ameritech Illinois or its other customers. Once again, there does not appear to be any associated benefits *for consumers* from this policy of unbundling non-essential facilities.

Q. WHAT IS THE RISK TO CONSUMERS IF THESE COSTS ARE SUBSTANTIAL?

A. If Ameritech Illinois were to go forward with its deployment of Project Pronto DSL facilities, and if these additional network inefficiency and other unbundling costs are properly imposed on DSL service providers, DSL service may become priced so high that it would be unattractive to potential consumers. This likely would be the case because other competing facilities-based high-speed Internet and data access providers, such as cable modem, satellite, and fixed wireless service providers, are largely unregulated and would not incur these regulatorily-created unbundling costs. As a result, consumers who, in the absence of these regulatorily-created costs, would have purchased DSL services provided over the Project Pronto network, but now find themselves "priced out" of considering that competitive choice, would be harmed. Those customers would now either have no high speed Internet and data access or would purchase an alternative service that they find less desirable. If the costs were, alternatively, subject to being absorbed by Ameritech Illinois, then further deployment of Project Pronto DSL facilities likely would become too expensive or too risky. To the extent that regulatory actions prevent consumers from benefiting from an otherwise competitive technology by making it unattractive to deploy, all customers lose.

V. RELATED ISSUES

Q. WHICH CUSTOMERS OF AMERITECH ILLINOIS ARE MOST LIKELY TO BE HARMED BY THE MANDATORY UNBUNDLING OF PROJECT PRONTO UNES?

A. Large business customers are generally able to obtain the telecommunications services that they need. In the case of high-speed data or Internet access, they have alternatives available to them in addition to DSL and cable modem service, and if they are not already using those alternatives, they easily could be. In addition, larger businesses tend to be located in urban core or other urban areas where there are more likely to be facilities-based competitive high-speed Internet and data access alternatives. There are smaller business customers and residential customers, however, for whom DSL service, such as that which would be available over the Project Pronto network, may constitute one of their major choices. In some cases, it may be their only competitive choice to cable modem service for the near future. If the costs of Project Pronto are artificially increased due to regulatory actions, it is these small business and residential customers who would either be deprived of a DSL service choice altogether or who would be able to obtain it only at an regulatorily-created artificially high price.

Q. WHAT HAPPENS TO THE REGULATORY PROCESS WHEN STEPS LIKE THE PROJECT PRONTO UNE MANDATORY UNBUNDLING ARE TAKEN?

A. I think we can begin to see how complex the regulatory process becomes when regulators must decide on and enforce policies that are better left to market forces, such as the mandatory unbundling of Project Pronto UNEs. We can see this from the Commission's Order, for example, and from Commissioner Squires' questions sent out by Hearing Examiner Don Woods on May 10, 2001.

I do not believe that regulation works very well at this level of detail. Regulatory commissions typically do not have the expertise nor the manpower to micromanage an

industry, particularly a complicated and technologically dynamic industry such as that related to advanced services. Furthermore, regulation at this level of detail inevitably involves deciding, implicitly or explicitly, on the structure of the industry. In the case of Project Pronto, the Commission's mandatory unbundling approach will, one way or another, determine the winners and losers among technologies and among potential high-speed Internet and data access service providers. It will also determine whether or not consumers will have a full array of choices for such high-speed Internet and data access readily available to them.

It is wiser and better suited to the regulatory regime to follow fundamental economic principles for unbundling and, as a result, to let the market determine outcomes in the high-speed Internet and data access services market.

Q. IF THE COMMISSION DOES NOT FORCE AMERITECH ILLINOIS TO UNBUNDLE PROJECT PRONTO UNES, WILL OTHER CARRIERS STILL BE ABLE TO PROVIDE DSL SERVICE USING AMERITECH ILLINOIS' NETWORK?

A. Yes. There have been a series of FCC and ICC orders, both specific to the SBC-Ameritech merger and general to all ILECs, that allow other carriers to provide DSL service to any Ameritech Illinois customer for whom DSL service is available using Ameritech Illinois' network.[7] Project Pronto UNEs are not necessary for this to occur. In fact, unbundling the Project Pronto UNEs would have the perverse effect of making fewer DSL and other high-speed alternatives available to consumers.

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[7] See, e.g., Third Report and Order and Fourth Further Notice of Proposed Rulemaking, *In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996,* CC Docket No. 96-98, 15 FCC Rcd 3696 (rel. Nov. 5, 1999) (*"UNE Remand Order"*); Third Report and Order in CC Docket No. 98-147, and Fourth Report and Order in CC Docket No. 96-98, *In the Matter of Deployment of Wireline Services Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, FCC 99-355 (rel. Dec. 9, 1999) (*"Line Sharing Order"*); Second Memorandum Opinion and Order, *Ameritech Corp. and SBC Communications Inc.*, 15 FCC Rcd 17521 (rel. Sept. 8, 2000) (*"Project Pronto Order"*); Third Report and Order On Reconsideration in CC Docket No. 98-147 and Fourth Report and Order on Reconsideration in CC Docket No. 96-98, *In the Matter of Deployment of Wireline Services Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, FCC 01-26 (rel. Jan. 19, 2001) (*"Line Sharing Reconsideration Order"*); Order, Ill. C.C. Dkt. No. 98-0555 (Sept. 23, 1999) (*"Illinois Merger Order"*).

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

A. I recommend that the Commission revise in part its Order of March 14, 2001, in Docket No. 00-0393 and not order the mandatory unbundling of Project Pronto UNEs or the collocation of CLEC line cards at Project Pronto DSL NGDLCs. This action would be in the interest of consumers, as it would spur facilities-based competition in the Internet and data access market (whether the market is high-speed Internet and data access or both high- and low-speed Internet and data access). This action would also help to ensure that high-speed Internet and data access is available to as many potential customers as possible by not discouraging the deployment of Project Pronto DSL facilities and by stimulating competitive alternatives, which should be accomplished through a greater reliance on market forces and less of a reliance on complicated and costly regulatory mandates.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON REHEARING?

A. Yes.